



Office of the Staff Judge Advocate LEGAL SERVICES U.S. Army Japan and I Corps (Fwd)

MAY 2009

Newsletter

Increased Take Home Pay



Thanks to the American Recovery and Reinvestment Act of 2009, specifically the "Making Work Pay Credit," most personnel will see an increase in their bi-monthly or bi-weekly paychecks. Similar to the stimulus payment received from the IRS, the total amount will be subtracted from your return at the end of the tax year. For those who owe taxes, consider the paycheck increase as an extra payment when filing your taxes. If your tax status is Married Filing Jointly (MFJ),

your paycheck increase should total \$800 and \$400 for all other taxpayers.

The credit is phased out for MFJ filers with a modified adjusted gross income between \$150,000 and \$190,000 and \$75,000 and \$95,000 for everyone else. As a result, higher income taxpayers will see little or no change in their take home pay. All eligible employees will not need to adjust their pay to receive the credit. Clients with multiple jobs or dual income families should only adjust their pay if they feel that the tax credit will incur a tax liability at the end of the year. For example, if you are filing MFJ and your refund is generally \$700, ensure you adjust your withholding to offset the \$800 so that you will not owe the \$100 at the end of the year, plus penalty. For more information on the Making Work Pay Credit, please visit the IRS press release at <http://www.irs.gov>.

May 16 2009 - Honoring our Retirees

In honor of our Retirees, the following information is provided on states that do not tax military retirement pensions.

There are currently 15 states that do not tax your military retirement. The fifteen states in alphabetical order are: Alaska, Delaware, Illinois, Kentucky, Michigan, Nevada, New Hampshire, New York, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Washington, and Wyoming. Although Florida does not tax military retirement, they do impose an intangible tax which is really a tax no matter what you call it.

Before you pack your home and put the kids in the vehicle, we strongly recommend that you also consider the two biggest taxes for any particular state - sales and property taxes.

Although your particular state may not tax your military pension, your state may be hitting you hard on sales and property taxes. As a result, you might actually save more by living in a state that does tax your pension .

By not taxing your retirement, the state has successfully brought you on board to permanently reside. Succeeding to win your residency, the state subsequently increases their sales and property tax to make up for the loss in not taxing your pension.

For example, Pennsylvania does not tax military pension, but to live in a mid-size home will require an annual property tax of \$6K for a mid-size home plus \$800 of sales tax. In this example, the difference between living in one non taxing military pension state from another could be in excess of \$6,000.

There is good news. Delaware has a property tax of 1/2 percent, does not tax military pension, and has no sales tax; your total tax expense amounts to slightly over \$600 to live in a mid-size home for this state. Please conduct your own tax research before deciding to remain or move to another state, considering a variety of tax issues and whether or not that state taxes your military pension.



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Contractors : Don't throw away free money.

Just because you are entitled to the Foreign Income exemption, sometimes it is not to your best interest to take that exemption. If you are married filing jointly, have two qualifying children, adjusted gross income below \$41,646, and investment income less than \$2,950, you do qualify for Earned Income Credit. The Earned Income credit is free money, even if you had no taxes withheld from your wages. As an added bonus, you will also receive Child Tax Credits to increase your return. Please contact your Tax Office for more assistance. Remember, excluding your Foreign Earned Income is optional, not mandatory.

WE'RE ON THE WEB

**HTTP://
WWW.USARJ.ARMY.MIL/
CMDSTAFFS/SJA/
LAO.ASPX**

Tax Questions of the Month

- Q. What is a marginal tax rate?
- A. Marginal tax rate applies to ordinary income - your wages. If you file MFJ and your combined income is \$67,900, your marginal tax rate is 15%. If you received a raise of \$1000, your new marginal tax rate is 25% or \$250 on the \$1000. Knowing you'll pay \$250 tax instead of \$150 on the last \$1,000, it may be more beneficial to invest the money in TSP, Traditional IRA, or another tax-deferred asset.
- Q. What are some ways to avoid taxes on income?
- A. The easiest way to minimize taxes is in your savings account. If you have children, put the savings in their name and you remain the custodian of the account. Savings accounts with \$900 of interest are not taxable against your child or you as the taxpayer. If you have three children, you avoid \$2700 of your income being taxed and it could prevent you from moving up to the next tax bracket. Another way to reduce tax payments is to pay at least \$2500 of student loan interest.
- Q. My son is a full-time student and employee residing with me. Can I claim him and who gets to claim his tuition that I pay?
- A. So long as you provide more than 50% of his living costs, you can claim him as an exemption and he could file his taxes for his income but not claim himself. Because you are claiming him, you get the tuition deduction or education credit, whichever gives you more on your return, but not both.
- Q. I am a FCC Provider in Japan, do I pay taxes on my income?
- A. Yes. You have two sources of income - the federal government's subsidy and payments from the parent(s). Because the source of your subsidy is from the U.S. government, the subsidy is taxable income which is reported to you and the IRS on form 1099 Misc. The second source of income from the parent is reported as income and may be excluded from taxation. Although the amount is not taxed, the excluded amount does raise your tax bracket on the income that is taxed.

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AND WOMEN**

If you have any questions, comments, or suggestions, please contact the Legal Assistance Office at 263-4698.

